

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

The Accounting And Ratemaking
Treatment For The Allowance For
Funds Used During Construction
(AFUDC)

CC Docket No. 93-50

COMMENTS OF THE NYNEX TELEPHONE COMPANIESI. INTRODUCTION AND BACKGROUND

New England Telephone and Telegraph Company and New York Telephone Company (the NYNEX Telephone Companies or NTCs) submit these Comments in response to the Commission's Notice Of Proposed Rulemaking (NPRM) released March 22, 1993, in the above-captioned matter. The NPRM proposes certain revisions to Parts 32 and 65 of the FCC's Rules. These revisions provide for GAAP¹ accounting, and consistent ratemaking treatment, with respect to asset construction-related funds during the period before the assets are placed in service.²

As the NPRM indicates (para. 1), the Commission conducted a pleading cycle in this area in 1991. In our filings,³ we proposed that the FCC adopt GAAP in its

¹ Generally Accepted Accounting Principles.

² NPRM paras. 1-2, Appendix.

³ RM-7626, NTCs' Comments filed March 21, 1991; NTCs' Reply Comments filed April 5, 1991.

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regulatory accounting, and apply the Revenue Requirement Offset Method with respect to long-term telephone plant under construction (TPUC). That is, we requested the FCC to provide for: capitalization of AFUDC at the cost of debt; inclusion of long-term TPUC (and AFUDC) in rate base; and as an offsetting measure, inclusion of the capitalized AFUDC as interest income in the determination of earnings. The FCC's current proposal meets each of these criteria and ensures full reflection of GAAP:

In this notice we propose changes to our Rules that would require the use of the Revenue Requirement Offset Method for both long-term and short-term construction and that would provide for interest capitalization according to the GAAP requirements, as stated in SFAS [Statement Of Financial Accounting Standards] 34 and its amendments. In the Appendix to this notice we propose the following: (1) elimination of the long-term/short-term dichotomy for plant under construction, (2) capitalization of AFUDC at the cost of debt on all construction, (3) inclusion of all plant under construction in the rate base, and (4) application of the amount of AFUDC capitalized as a revenue requirement reduction for the period it is capitalized.⁴

As discussed herein, the NYNEX Telephone Companies strongly
~~oppose the Commission's proposal~~

SFAS No. 34, Capitalization of Interest Cost, and its amendments. We agree with the Commission that under GAAP there is no long-term/short-term distinction in this area, and that

III. CONCLUSION

The NYNEX Telephone Companies support the FCC's continuing actions to incorporate GAAP into regulatory accounting. The Commission should adopt its proposal to apply the Revenue Requirement Offset Method in the ratemaking treatment of AFUDC.

Respectfully submitted,

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and
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